UNIVERSITY OF
REGINA

Pension Plan for the Academic and Administrative

Employees of the University of Regina

Financial Statements

For the Year Ended December 31, 2004

Provincial Auditor Saskatchewan

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AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the Pension Plan for the Academic and Administrative Employees of the University of Regina as at December 31, 2004 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits and surplus of the Plan as at December 31, 2004 and the changes in the net assets available for benefits and changes in accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
April 8, 2005

Fred Wendel, CMA, CA
Provincial Auditor

Pension Plan for the Academic and Administrative Employees of the University of Regina
Statement of Net Assets Available for Benefits, Accrued Pension Benefits and Surplus
As at December 31

	2004	2003
Assets		
Investments:		
Pooled fund (Note 7)	$ 239,663,132	$ 226,723,981
Receivables:		
Employee contributions - Defined Benefit Plan	127,154	124,791
Employer contributions - Defined Benefit Plan	126,235	123,691
Employee contributions - Defined Contribution Plan	159,655	134,056
Employer contributions - Defined Contribution Plan	158,506	134,013
	571,550	516,551
Total assets	240,234,682	227,240,532
Liabilities		
Accounts payable	780,832	1,484,465
Total liabilities	780,832	1,484,465
Net Assets Available for Benefits (Statement 2)	239,453,850	225,756,067
Accrued Pension Benefits - Defined Contribution Plan (Note 4)	26,508,000	21,771,000
Accrued Pension Benefits - Defined Benefit Plan (Statement 3)	180,062,000	174,915,000
Surplus	$ 32,883,850	$ 29,070,067

Approved by the Board of Governors

Chair, Board of Governors

Vice President (Administration)

The accompanying notes are an integral part of these financial statements

Pension Plan for the Academic and Administrative Employees of the University of Regina
Statement of Changes in Net Assets Available for Benefits
For the Year Ended December 31

	2004	2003
Increase in Assets		
Change in market values of investments:		
Net realized gain on sale	$ 5,042,852	$ 2,999,210
Unrealized appreciation of investments	17,526,489	23,095,081
	22,569,341	26,094,291
Contributions:		
Employee contributions - Defined Benefit Plan	1,529,365	1,542,436
Employer contributions - Defined Benefit Plan	1,521,560	1,528,572
Employee contributions - Defined Contribution Plan	1,790,384	1,530,062
Employer contributions - Defined Contribution Plan	1,785,383	1,530,008
	6,626,692	6,131,078
Total increase in assets	29,196,033	32,225,369
Decrease in Assets		
Plan expenses (Note 5)	1,265,669	1,074,117
Pension benefits - Defined Benefit Plan	5,815,697	5,764,538
Refunds and transfers - Defined Benefit Plan	7,515,289	3,508,864
Refunds and transfers - Defined Contribution Plan	901,595	1,633,335
Total decrease in assets	15,498,250	11,980,854
Net Increase in Assets	13,697,783	20,244,515
Net Assets Available for Benefits, Beginning of Year	225,756,067	205,511,552
Net Assets Available for Benefits, End of Year (to Statement 1)	$ 239,453,850	$ 225,756,067

The accompanying notes are an integral part of these financial statements

Pension Plan for the Academic and Administrative Employees of the University of Regina
Statement of Changes in Accrued Pension Benefits
For the Year Ended December 31

	2004 (Note 6)	2003
Accrued Pension Benefits, Beginning of Year	$ 174,915,000	$ 166,831,000
Increase in Accrued Pension Benefits:		
Interest on accrued benefits	12,335,000	11,715,000
Benefits accrued	5,133,000	4,654,000
Experience loss	1,687,000	-
	19,155,000	16,369,000
Decrease in Accrued Pension Benefits:		
Benefits paid	14,008,000	8,108,000
Experience gain	-	177,000
	14,008,000	8,285,000
Accrued Pension Benefits, End of Year (to Statement 1)	$ 180,062,000	$ 174,915,000

The accompanying notes are an integral part of these financial statements

1. Summary of Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting policy is considered significant.

Investments

Investments are comprised of units in a pooled fund called the University of Regina Master Trust. Additional units are acquired when assets are transferred to the Fund and when distributions are made by the Fund. The Plan can realize changes in the underlying unit values by redeeming units.

Units in the pooled fund are recorded in the accounts at their net asset value per unit. The net asset value per unit is the market value of the pooled fund's investments divided by the total number of units outstanding in the Fund.

The change in net asset value of the Fund during the year is reflected in the Statement of Changes in Net Assets Available for Benefits as Unrealized appreciation of investments.

2. Authority for the Plan

Section 62(j) of *The University of Regina Act* provides that the Board of Governors may establish a system of pension or retiring allowances for any or all classes of University officials and other employees.

3. Plan Administration

The Academic and Administrative Pension Plan was established June 30, 1965. In December 1974, the Board of Governors of the University of Regina accepted sponsorship of the pension plan for its employees. The Academic and Administrative Benefits Committee is a sub- committee of the Board of Governor's Human Resources Committee and has the responsibility to administer the Plan according to the terms and provisions of the Plan agreement. The University has appointed, through agreements, investment managers to authorize investments, and a trustee to maintain custody of the plan assets and invest the plan assets as authorized by the investment managers.

4. Description of the Plan

The following description of the Pension Plan for the Academic and Administrative Employees of the University of Regina is a summary only. For more information, reference should be made to the Plan document.

a) General

At December 31, 1999, the Plan was a contributory defined benefit final average pension plan for Academic and Administrative employees who held a permanent,

probationary or term appointment, working half-time or more. Eligible employees were required to join the Plan as a condition of employment.

Effective January 1, 2000, a DC (Defined Contribution) component was added to the Plan for new members joining the plan on or after this date.

Plan membership is extended to those employees who qualify from Communities of Tomorrow, Petroleum Technology Research Centre, the federated colleges, Campion and Luther, and continues to be extended to the employees of the Mackenzie Art Gallery. There are 848 active members in the Plan.

b) Retirement Benefits

Defined Benefit Component:

The normal retirement date is the 30th of June coincident with or next following the 65th birthday.

The annual amount of pension is determined as 2% of the Member's highest three-consecutive-year average earnings multiplied by the number of years of credited service. The annual retirement benefit is based on maximum earnings of $91,667 as outlined in the *Income Tax Act* (Canada).

The normal form of pension is a single life pension payable monthly in arrears with a ten year guarantee. Other options are available on an actuarially equivalent basis.

A member who has a spouse at the time of retirement shall be paid in a joint and 60% survivor form unless the member's spouse has signed a waiver under applicable legislation reducing survivor benefits for the spouse.

A member also has the option of transferring funds as described in d) Termination Benefits or to any other prescribed retirement plan that is registered under the *Income Tax Act* (Canada).

Defined Contribution Component:

The normal retirement date is the 30th of June coincident with or next following the 65th birthday.

Upon retirement, the full value of the DC member's account is transferred to a prescribed retirement plan that is registered under the *Income Tax Act* (Canada).

c) Indexing

Eligible retired members in the DB (Defined Benefit) component may be entitled to a yearly formula-based pension increase. The plan provides post retirement indexing to 100% of the increase in the CPI (Consumer Price Index). The pension increase will commence after one year after the Member's deemed retirement date.

d) Termination Benefits

A Member is vested and locked-in immediately upon becoming a Member of the Plan.

Under the DB component, upon termination of employment the Member shall receive a transfer to another registered pension plan, a prescribed RSP, or to purchase a deferred life annuity contract from an insurance company an amount equal to the greater of the following:

i) the Member's plus the University's required contributions with interest as at December 31, 1991, plus, for service on or after January 1, 1992, two times member required contributions with interest, plus, for periods under the Salary Continuance Plan after December 31, 1991, the Commuted Value of benefits earned during such period of disability, or

ii) the Commuted Value of the monthly retirement benefit.

Under the DC component, upon termination the Member shall receive the full value of the DC account available for transfer to another registered pension plan, or a prescribed RSP. The value of the DC account is comprised of member and employer contributions along with allocation of investment income. Investment income is defined as investment returns including change in market values less management fees and administration expenses incurred.

e) Death Benefits

i) Prior to Normal Retirement Date

Defined Benefit Component:

Upon death of a member, other than a terminated vested member or a retired member, the Member's spouse shall receive a transfer to another registered pension plan, a prescribed RSP, an Insurance Business to purchase an immediate or deferred pension, or a combination of the three, the greater of the following:

A) the Member's plus the University's required contributions with interest as at December 31, 1991, plus, for service on or after January 1, 1992, two times member required contributions with interest, plus, for periods under the Salary Continuance Plan after December 31, 1991, the Commuted Value of benefits earned during such period of disability, or

B) the Commuted Value of the monthly retirement benefit.

If the Member does not have a spouse, the beneficiary receives the death benefit as a taxable lump-sum payment.

Defined Contribution Component:

Upon death of a Member and if the Member does not have a spouse, the Member's estate or designated beneficiary will receive a taxable lump sum payment of the full value of the DC account less any applicable withholding taxes.

If the Member has a spouse, the spouse will receive the full value of the DC account which can be transferred to another registered pension plan, a prescribed RSP, an Insurance Business to purchase an immediate or deferred pension, or a combination of the three.

ii) After Retirement

Upon the death of a retired DB member, benefit payments, if any, shall be continued in accordance with the benefit payment option elected by the member at the time of retirement.

f) Member's Contributions and Funding Policy

In accordance with the Plan document, the following amounts shall be contributed with respect to each member:

i) 11.4% of the Member's earnings, up to the Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan, plus

ii) 15% of the Member's earnings in excess of the YMPE under the Canada Pension Plan; provided the earnings of a Member shall be the maximum earnings which will provide the maximum pension permitted under the Income Tax Act.

At least 50% of such contributions shall be made by the Employer. The balance shall be retained at source from the Member's earnings.

g) Interest Rate Credited

Defined Benefit Component:

Since December 31, 1995, active member and University contribution balances are credited interest each year such that the total member and University contribution balance with interest is the greater of:

i) the member and University contribution balance at December 31, 2004 credited with the average for the year of the yields of five-year personal fixed term chartered bank deposit rates (CANSIM, Series B-14045); and

ii) the member and University contribution balance at December 31, 2004 credited with the geometric four-year average net rate of return for the fund less 0.5%.

Defined Contribution Component:

Since December 31, 1995, active member and University contribution balances are credited interest each year based on the actual investment performance net of expenses in the year, as approved by the Academic and Administrative Benefits Committee.

h) Members on Disability

Defined Benefit Component:

Periods during which a member is in receipt of disability benefits provided from the Long Term Disability Plan of the University count as pensionable service. Employer and employee contributions continue during periods the employee is in receipt of disability benefits.

Defined Contribution Component:

The Plan continues the employer and employee contributions for periods during which a Member is in receipt of disability benefits from the Long Term Disability Plan of the University.

5. Plan Expenses

	2004		2003
	Budget	Actual	Actual
Actuarial and consulting services	$ 296,870	$ 224,034	$ 219,462
Administration	161,275	165,252	121,600
Investment management	695,500	748,664	615,419
Trustee fees	143,000	127,719	117,636
	$1,296,645	$1,265,669	$1,074,117

6. Accrued Pension Benefits

Aon Consulting Inc., a firm of consulting actuaries, performed an actuarial valuation as at December 31, 2003 and extrapolated this to December 31, 2004. The actuary used the projected benefit method prorated on services and best estimate assumptions approved by the Benefits Committee. Significant long-term assumptions used in the valuation and extrapolation were:

	as at December 31	
	2004	2003
Salary/YMPE increases	5.0%	5.0%
Inflation rate	4.0%	4.0%
Discount rate	7.0%	7.0%
Indexing	4.0%	4.0%

Mortality tables used were the GAM 83 projected to 2012 for pensioners and GAM 83 projected to 2019 for all others. (2001- GAM 83 projected to 2012 was used for all members).

The actual rates may vary significantly from the long-term assumptions used. During the year, the Plan experienced a loss of $1,303,000 composed of ($836,000) for salary increases greater than expected, ($803,000) interest on employee contributions greater than assumed, $1,192,000 pensioner increases less than expected, ($856,000) active decrement experience.

The Plan Document states that any excess surplus shall be used to reduce the contributions of the University and members equally, or used for the benefit of the members and their beneficiaries. Any use of surplus to reduce contributions of the University must be negotiated with the members as part of the collective agreements. Any use of surplus would be for the benefit of the members and their beneficiaries.

Effective for 1993 and after, the Plan Document was amended so that, upon termination or death of a member, the member, beneficiary or spouse shall receive a transfer as described in notes 4 (d) and (e). The December 31, 2004 actuarial present value of accrued pension benefits shown in Statement 3 contains $449,327 (2003 - $1,041,600) related to such inactive members. The DC part of the Plan also contains $611,751 (2003 – $316,131) related to inactive members. The University is attempting to transfer these amounts, but it is unknown how soon this will be accomplished as the transfer is dependent upon decisions to be made by the member, beneficiary or spouse.

The following illustrates the impact that changing certain assumptions by plus or minus 1% would have on the accrued liabilities for the defined benefit component. The discount rate is equal to the inflation rate plus a real rate of return. The salary, YMPE, and *Income Tax Act* Maximum Pension increase equals the inflation rate plus 1.0%. Thus changing the inflation rate by plus/minus 1% will automatically increase/decrease the discount rate and the Salary, YMPE, and *Income Tax Act* Maximum Pension increase assumptions by 1%.

Assumption:	**Adjusted Assumption (Change Made):**	**Change in Accrued Liability**	**Percentage Change in Accrued Liability**
Discount rate	8% (Plus 1%)	($14,334,000)	(8.0%)
	6% (Minus 1%)	$20,569,000	11.4%
Salary, YMPE, and *Income Tax Act* Maximum Pension increase	6% (Plus 1%)	$4,015,000	2.2%
	4% (Minus 1%)	($3,151,000)	(1.8%)
Inflation rate	5% (Plus 1%)	($6,850,000)	(3.8%)
	3% (Minus 1%)	$10,008,000	5.6%

The pension obligation is long-term in nature. The Plan has no intention of settling its pension obligation in the near term and there is no market for settling its pension obligation. Therefore, determination of the fair value of the pension liability is not practical.

7. Financial Instruments

The Plan's significant financial instruments consist of accounts receivable, accounts payable, and investments.

The accounts receivable and accounts payable are non-interest bearing financial instruments and are due or payable within the next year. Due to this short-term maturity, the fair value of these financial instruments approximates carrying value.

Effective December 1, 1995, the assets of the University of Regina's Academic and Administrative Employees and the Non-Academic Pension Plans were combined into a pooled fund called the Master Trust to improve investing opportunities. Each plan holds units in the Master Trust rather than holding individual investments.

The investment objectives of the Plan are to ensure there are sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. Due to the long-term horizon of the Plan's liabilities, the Master Trust takes a long-term investment perspective.

As a result, interest rate and credit risks of the Master Trust are also risks of the Plan.

a) Interest Rate Risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Master Trust's cash flows, financial position and income. This risk arises from short-term changes in nominal interest rates that cause differences in the timing and amount of cash flows related to the investments.

b) Credit Risk:

Credit risk arises from the potential for an investee to fail or for a counterparty (e.g. mortgager) to default on its contractual obligations to the Master Trust. The Master Trust limits the credit risk by dealing with counterparties that are considered to be high quality. The investment policies of the participating pension plans state that short-term investments must meet a minimum investment standard of "R-1", and the minimum quality standard for individual bonds and debentures is 'B' as rated by a recognized bond rating agency at the time of purchase. The credit ratings used to describe the investments are based on the Dominion Bond Rating Service and/or the Standard and Poor's Bond Rating Service.

c) Foreign Currency Risk:

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the

relative value of the Canadian Dollar against the foreign currencies results in a positive or negative effect on the fair value of investments. The Plan manages the foreign currency risk by limiting its holdings of foreign investments to 30% of the book value of the entire investment portfolio.

8. Investment Performance

The University has retained CIBC Mellon as the trustee of the Master Trust.

The University has retained Phillips, Hager & North Ltd. as investment manager of the majority of the investments. The University also contracts with Templeton Management, Bentall Investment Management, and Barclay's Global Investors to be investment managers of specific types of investments.

These investment managers make the day-to-day decisions of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the Plan. It is these long-term investment performance objectives that are used to assess the performance of the investment managers.

The primary long-term investment performance objective for the entire Master Trust portfolio is to out-perform a benchmark portfolio with weightings as follows:

Asset Class	Representative Index	Weight
Canadian equities	S&P/TSX Composite Index	18 %
U.S. equities	S&P 500 ($C)	18
Non-North American equities	EAFE ($C)	18
Real Estate	Russell Canadian Property Index	5
Bonds	SC Universe Bond Index	38
Short-term investments	91 – day T-Bills	3
		100 %

The University engages the services of asset management consultants to provide advice on the overall management of the Plan's investments and on the measurement of the Plan's performance. James P. Marshall Inc. and the Russell/Mellon Canadian Trust Universe (RMCTU) provide this service. James P. Marshall reports to the Joint Academic and Administrative and Non-Academic Benefits Committee quarterly on the investment performance in terms of the performance of the benchmark portfolio over moving four-year periods. For the four years ending December 31, 2004, the Master Trust/Academic and Administrative Pension Plan had an annualized gross rate of return of 3.9% (2003 – 4.0%). The investment objective (the return of the benchmark portfolio) was 2.7% (2003 – 2.0%).

9. Related Parties

The Plan is related to the University of Regina and other pension plans sponsored by the University. The University pays all plan expenses, pension benefits and refunds

and transfers on behalf of the Plan, and then is reimbursed by the Plan. Contributions for Communities of Tomorrow, Petroleum Technology Research Centre, the federated colleges and MacKenzie Art Gallery are calculated and collected through the University's payroll process.